

This letter provides references regarding the manufacturing machinery and equipment exemption and the recently repealed graphic arts machinery and equipment exemption. See 86 Ill. Adm. Code 130.330 and 130.325. (This is a GIL.)

February 26, 2004

Dear Xxxxx:

This letter is in response to your letter dated December 10, 2003, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.ILTAX.com to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

This letter is written to request an opinion concerning Retailers' Occupation Tax and Related taxes.

My client is an integrated manufacturer of paper-based packaging products with Illinois manufacturing facilities as well as manufacturing facilities in other states. This integrated manufacturing process, explained below, is performed entirely by the taxpayer in its facility. The raw materials used to manufacture the packaging products are owned by the taxpayer. Given the recent changes in the Illinois Retailers' Occupation Tax and related acts, confirmation of exemption for certain production machinery and equipment is being requested.

Folding cartons for the food, beverage, consumer products, pharmaceutical, cosmetic, and electronics industries are produced by my client's plants. My client's carton products are sold to other manufacturers who subsequently resell the cartons along with their manufactured products to their customers.

The process of manufacturing folding cartons is an integrated and continuous process that requires various equipment as follows: The integrated process begins with roll stock (paper) going through a decurl operation and then being fed into a sheeter to cut the

paper into an acceptable size for feeding through a printing press. The paper is moved from the sheeter by forklift directly to a printing press. The printing is performed by any of the standard types of processes; lithography, gravure, or flexography. A sheet of paper will contain numerous images of the product being manufactured. Each 'run' of product is checked for quality. Color, clarity, texture, thickness, and other client specifications are checked against customer requirements. After completion of a 4 or 6 color printing process, the paper is moved by lift truck to an aerator. The aerator removes excess powder and also straightens the load prior to going to the automated cutter. Through the use of cutting dies, the cutter cuts/stamps the printed sheet with multiple images into individual cartons with single images while removing excess paper from around the images. This machine is computer controlled, and is set to meet our customers' exact measurement requirements. Dust and excess paper are removed from the product by the dust control system.

From the cutter, the product goes to the gluer. The gluing machine moves product by a series of belts through various folding operations and adhesives are applied which seal cartons to customer specifications. The carton will then be placed inside a corrugated carton containers(cases) for shipment, the cases will then be stacked on a pallet (palletized) by a piece of equipment called a palletizer, labeled, and shrink wrapped for shipment to the customer. Certain customers require that the cartons be sent out directly after the cutting operations. For those customers, stacks of cartons are then palletized, flipped in the load flipper, corner board and other packing materials are applied, then the cartons are banded, shrink wrapped, labels applied to the shrink wrap and then shipped to the customer. In some instances, automated tape machines apply sealing tape to the cartons. Product is moved throughout the process, machine to machine, by forklifts.

All machinery is computer controlled and set to precise tolerances to meet customer requirements.

Illinois Compiled Statutes Sec. 3-50 defines manufacturing process as 'the production of an article of tangible personal property, whether the article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by a procedure commonly regarded as manufacturing, processing, fabricating, or refining that changes some existing material into a material with a different form, use, or name. In relation to a recognized integrated business composed of a series of operations, that collectively constitute manufacturing, or individually constitute manufacturing operations, the manufacturing process commences with the first operation or stage of production in the series, and does not end until the completion of the final product in the last operation or stage of production in the series.'

It is our contention that the operations conducted at my client's plants (as described above) are properly classified as processes of manufacturing. These processes transform blank roll stock into folding cartons. The finished cartons are a different size, shape, color, and texture from the roll stock that started the process. The transformation of roll stock into a finished carton is significant and is accomplished by processing the paper through the sheeter, printing press, printing plates, cutter, dies, quality control equipment, aerator, gluer, carton machine, tape machines, palletizer, and stretch wrapper.

With recent law changes, the proper application of the manufacturing machinery and equipment exemption may be unclear. We believe that the sheeters, printing presses, printing plates, die-cut machinery, dies, quality control equipment, aerator, folding and gluing machines, tape machines, palletizers, stretch wrappers, and forklifts described above are used in a process commonly regarded as manufacturing machinery. As such, purchases of such machinery and equipment can qualify for exemption as machinery and equipment used primarily in the process of manufacturing or assembling tangible personal property for wholesale or retail sale. Do you agree?

If you have questions regarding this machinery or the process itself, please feel free to contact me. Thank you for your attention to this matter and prompt response.

DEPARTMENT'S RESPONSE:

We regret that we cannot provide you with a specific answer in the context of a General Information Letter. Please see the Department's rules on our website listed below regarding the Manufacturing Machinery and Equipment Exemption – 86 Ill. Adm. Code 130.330 and the recently repealed Graphic Arts Machinery and Equipment Exemption – 86 Ill. Adm. Code 130.325.

I hope this information is helpful. If you require additional information, please visit our website at www.ILTAX.com or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Terry D. Charlton
Associate Counsel

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